



HUMAN RESOURCE ACCOUNTING ENTERPRISES AND ITS IMPACT ON FINANCIAL PERFORMANCE

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Abstract

Human Resource is a vital asset to organizations as their success is reliant on the quality of human resources. The human element has been eminent as the most crucial input in an organization. Therefore, the valuation of such a valuable asset is necessary. Moreover, HRA helps in the valuation of human assets, facilitating the management of human resources effectively and efficiently. Recognizing human assets as a foundation for maintaining a competitive and economic development in the knowledge-based economy becomes a necessity. Moreover, investing in human resource to raise knowledge and improve skills thereby enhancing performance is essential for organizational survival. It is the role of HRA that ensures such investment to be made, recorded, evaluated and communicated.

Keywords: Financial performance and Human Resource Accounting Enterprises.

INTRODUCTION

Since the 18th century, the industrial revolution has been the backbone of economic prosperity. However, in the past few decades, a shift from manufacturing to a knowledge-based economy is observed. With the emergence of a service-based economy, focus on human resource grew. Organizations started to be concerned with employee costs and investments on employee expenditure which involves cost-benefit analysis.

Employees usually perceived as expenses without future value in many organizations. Human Resource Accounting by employing several techniques attempts in measuring human resources and disclosing information related to human resource value. The significant

growth in Medium Scale Enterprises and their contribution to economic growth is a motivating factor to study HRA in Medium Scale Enterprises and gain an insight of how this concept is perceived, whether practiced or not and the challenges and opportunities involved. Generally Accepted Accounting Practices (GAAP) approves that compensation paid to employees to be categorized as cost and shown as expenses in the income statement. Therefore, the future benefit potential of employees does not get disclosed. Hermanson et al., 1973 argues that by considering compensation as an asset would likely surge the profit of an organization and has the potential of promoting positive results for the organization and economy. For instance, increased profits can attract investors, thereby increasing working capital. Therefore, it leads to increased government revenue as corporate income taxes rise, which can potentially increase government spending which in turn can lead to economic growth. Hence the potential of improving business and economic growth contributes to the value of this study. The conventional method of expensing cost appears to be leading despite the existence of various models of quantifying human resource. Disclosing labor as expenses opposed to capitalizing it on the balance sheet like other assets with the future potential of earning for the firm.

Likert introduced the concept of Human Resource Accounting in an attempt of highlighting the significance of human resource management of an organization. The concept of Human Resource Accounting reflects the worth of recognizing human assets as creators of products or services. He further indicates that production and value of an organization are affected by the method of HRA which is used in measuring and disclosing human assets value. The American Accounting Association (AAA) defines HRA as “the process of identifying and measuring data about human resources and communicating this information to interested parties.” This definition fails in outlining quantification and disclosure methods. The practice of expensing all costs related to human resource acquisition continues to spread the notion that human resources do not create future value. HRA proposes methods of quantification and basis for disclosure of human resources.

Research Questions of the study

1. Are managers in Medium Scale Enterprises aware of HRA?
2. Do Managers understand the significance of HRA in Medium Scale Enterprises?
3. How is HRA perceived in Medium Scale Enterprises?
4. Is HRA information used in Human Resources Management?

5. Is HRA used in financial reporting?

Significance of the study

The motivation of undertaking this research is due to the limited research work on Human Resource Accounting with particular emphasis on Medium Scale Enterprises in India. The study mainly attempts in understanding the perception of HRA, its implementation, benefits, and challenges of HRA in Medium Scale Enterprises. Human resources are crucial to an organization's survival and success. However, the essential resource remains neglected, in decisions concerning competition, personnel assets are undervalued as firms consider downsizing. Therefore, understanding HRA and its impact on Human resource management practices and decision-making process, in general, becomes significant as these, in turn, affects overall organizational performance.

Though there are several studies conducted about Human Resource Accounting, they remained confined to few organizations mainly addressing the large-scale enterprises. With globalization and knowledge-based economy driven by knowledge, experience and education with a high emphasis on human assets and growth in Medium Scale Enterprises and their contribution to the economy, HRA in India must have comprehensive coverage regarding research and implementation. Therefore, this study aims at understanding the concept of HRA from Medium Scale Enterprises and its relevance in this sector. Therefore, attempting to bridge the gap between research and application after duly understanding the concept in the context mentioned above.

The current study proposes to give useful insights on Human Resource Accounting's perception which will enable in bridging the gap not only regarding literature and research but also in the application of Human Resource Accounting.

Objectives of the study

1. To assess the understanding of HRA among managers in Medium Scale Enterprises.

Hypotheses of the Study

1. H (0): There is no significant association between the uses or Application of HRA and understanding of the Managers about HRA in Medium Scale Enterprises.
- H (1): There is a significant association between the uses or Application of HRA and understanding of the Managers about HRA in Medium Scale Enterprises.

Study Area

The study is conducted in the district of Udaipur in the State of Gujraat, India.

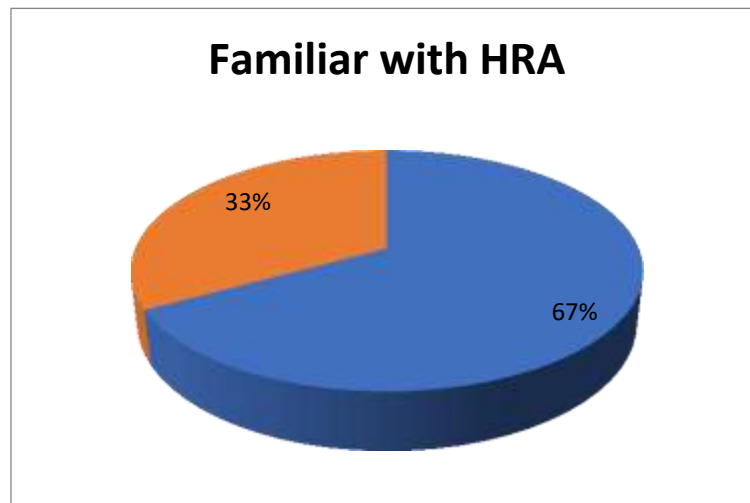
Techniques of Sampling and Sampling Design

Samples were taken from companies listed as Medium Scale Enterprises in the office of the DIC (District Industries Center) in the district of Udaipur. A total of Twenty (20) companies which registered as Medium Scale Enterprises in the District Industries Center in the District of Udaipur were selected for this study.

Table 1
Extent of familiarity with HRA and HRA in Operation

Familiar with HRA * HRA in operations				
			HRA in operation	Total
			No	
Familiar with HRA	Yes	F	67	67
		%	67	67
	No	F	33	33
		%	33	33
Total		F	100	100
		%	100	100

Chart 1
Familiarity with HRA



The above table 1 shows the results of familiarity of HRA, among the 100 respondents, 67% of the managers are familiar with HRA. The remaining 33 % are not familiar with the concept of HRA. It also shows that none of the companies in the sample currently implement HRA. As for the awareness levels, 33% unaware of the concept could have implications on

the initiating of implementation. Supported by piechart representation.

RESULTS

To assess the understanding of managers about HRA in Medium Scale Enterprises is the first objective of the study. To answer this objective, a chi-squared test is used by cross-tabulation of comparisons of the responses given to questions of familiarity regarding the concept of HRA and its various uses and applications. From the survey, it is found that Among 100 medium scale enterprises managers, 67% are familiar with HRA.

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